

■ TAIWAN'S ACCESSION TO THE WTO

WHAT IT MEANS FOR U.S. BUSINESS

by Linda Droker, William Golike,
Office of the Pacific Basin,

Ronald Lorentzen
Import Administration

Christopher Blaha, John Henry,
Trade Development

Anne Dawson and Sophia Huang,
U.S. Department of Agriculture

Taiwan became the 144th member of the World Trade Organization (WTO) on January 1, 2002, following a unanimous decision by trade ministers attending the November Ministerial in Doha, Qatar. Taiwan had been negotiating the terms of its entry with the United States and

other WTO members for nearly a decade. Taiwan will enter the WTO as the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, or "Chinese Taipei."

Currently, Taiwan abides by the results of the 1979 GATT Tokyo Round with respect to the United States. Therefore, U.S. trade with Taiwan is on a most-favored nation or MFN basis and Taiwan conforms

to the various GATT "codes" of the time. WTO accession means that Taiwan will implement GATT 1994, as well as the WTO disciplines negotiated during the Uruguay Round. The United States did not make any new trade concessions to Taiwan as part of this negotiation.

In addition to Taiwan's agreement to reform its trade regime to bring it into conformity with WTO principles, Taiwan has undertaken specific market access commitments that will benefit U.S. producers of agricultural and industrial goods and service suppliers.

TAIWAN'S ECONOMY AND MARKET POTENTIAL

Taiwan is our eighth largest trading partner and our seventh largest export market. U.S. exports to Taiwan in 2000 were \$24.4 billion and imports were \$40.5 billion.

Taiwan is a key player in the global economy – it is the world's 16th largest economy. Its worldwide trade totaled \$288 billion in 2000 and it holds the world's fourth largest foreign exchange



reserves. It is a major information technology (IT) manufacturer, producing 5.5 percent of global semiconductor output and the majority of the world's computer peripherals (2000 data).

The recent global downturn in the IT sector has struck Taiwan's economy hard, contributing to reduced exports, a declining stock market and a projected 2.1 percent drop in GDP growth for 2001 — its first recession in 50 years. This has reduced its global trade levels, as well as its trade with the United States. Bilateral trade levels have declined sharply during the first three quarters of 2001 — exports, by almost 25 percent and imports, by close to 16 percent.

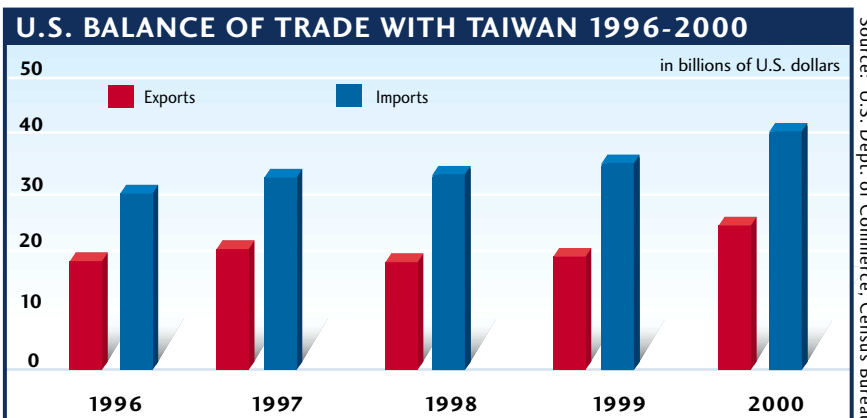
The U.S. share of Taiwan's import market was 18 percent in 2000 — well ahead of the 10 percent share we currently hold in the People's Republic of China (PRC). The U.S. is second to Japan, which has a 28 percent share and ahead of the EU, with 11 percent.

The computer and electronics sector dominates U.S. trade with Taiwan in manufactured goods. Components and manufacturing equipment are exported to Taiwan and finished products imported back to the United States on a contract basis. Electronic integrated circuits and micro-assemblies alone accounted for 20 percent of U.S. exports to Taiwan in 2000. Computer equipment accounted for 16 percent of U.S. imports from Taiwan.

Other key exports include aircraft, telecommunications equipment, chemicals and agricultural products.

WHAT WTO ACCESSION MEANS FOR U.S. BUSINESS

Taiwan's accession to the WTO will benefit a wide range of U.S. com-



panies. Taiwan does not claim any right granted under WTO agreements to developing economy members. Taiwan will have to eliminate many existing non-tariff barriers and trade distorting measures such as certain types of subsidies. It will need to meet a higher standard for protection of intellectual property rights. It must ensure that product standards do not act as barriers to imports. It will be subject to the WTO dispute settlement process, allowing us to enforce U.S. WTO rights against Taiwan. The text of Taiwan's commitments is contained in WTO documents *WT/ACC/TPKM/18* and *WT/ACC/TPKM/18 Additions 1 and 2*. These can be downloaded from www.wto.org.

Taiwan's markets are already more open than many others in the region. Over the last 12-15 years, the authorities had already begun tariff reductions, easing non-tariff barriers and improving Taiwan's intellectual property laws. To bring Taiwan's trade regime into conformity with the WTO agreements, the legislature enacted or amended 52 laws, completing its work on October 31.

TARIFF REDUCTIONS

Taiwan has committed to substantial tariff reductions on industrial products as part of its WTO accession. Upon accession, Taiwan's

average industrial tariff rate will decrease from 6.9 percent to less than 5 percent. Ninety percent of these reductions will be complete by 2004. The phase-in of the remaining industrial tariff reductions will be complete by 2011.

Taiwan will eliminate its duties on agricultural equipment, beer, civil aircraft, construction equipment, brown distilled spirits, furniture, medical equipment, paper, steel and toys. With a few exceptions, the tariffs on these products will be eliminated by 2004. Taiwan is already participating in the Information Technology Agreement (ITA), which eliminates tariffs on many information technology products. Other important product categories, such as motor vehicles, will also benefit from significant tariff reductions. Finally, Taiwan will harmonize its tariffs on chemical products in accordance with the Chemical Harmonization Tariff Agreement (CHTA).

TELECOMMUNICATIONS

Taiwan's accession to the WTO will bring excellent opportunities in the telecom sector. As part of its accession agreement, Taiwan agreed to adhere to the WTO Agreement on Basic Telecommunications Services. This commitment not only lifts many of the restrictions for foreign participation in Taiwan's telecom market, but also commits Taiwan



to adopt a number of specific competitive safeguards. Taiwan has agreed to ease restrictions on licenses for basic telecom service providers, allow majority foreign ownership of basic telecom service providers (up to 60 percent in a combination of direct and indirect investment) and fully open its market for value-added telecom services. Taiwan has also agreed to adopt measures to ensure effective competition and prevent anti-competitive practices. These include the establishment of an independent regulatory body, rules governing interconnection, transparent and non-discriminatory procedures for frequency allocation and transparent and competitively neutral requirements for

universal service provision. Taiwan is in the process of changing its implementing regulations to conform to its telecommunications services commitments and many of the required new regulations have yet to be fully detailed. However, these commitments will mean real opportunities for U.S. telecom companies.

AGRICULTURE

Tariffs for agricultural products will be reduced from a current average of about 20 percent to just over 14 percent upon accession and will be further reduced to an average of slightly less than 13 percent in 2004. Taiwan will lift its ban on rice imports, establish

tariff-rate quotas (TRQs) for 22 items and allow importation of 18 other items, without restriction beyond the negotiated tariffs. Among the 18 agricultural items garnering greater market access are apples, grapefruit, other citrus fruits, peaches, plums, potatoes, whole ducks, duck parts and turkey parts.

Taiwan will lift its current ban on rice to allow imports through a minimum market access quota. The quota will be 144,720 tons (calculated on a brown rice basis) for 2002. Any increase in the size of the rice quota will begin in 2002 under the current WTO agricultural negotiations.

The 22 products subject to TRQs, including pork belly, chicken meat, animal offal (for both pork and poultry), liquid milk, peanuts, red beans, garlic bulbs and some fruits and vegetables, will also see incremental reductions in the in-quota tariffs as well as increases in their quota sizes. An additional significant concession is the eventual elimination of the TRQs for chicken meat, pork belly and other pork cuts and poultry and pork offals that is scheduled for January 1, 2005. Tariffs will be bound at 20 percent for chicken meat, 12.5 percent for pork belly and other pork cuts, 15 percent for pork offal and 25 percent for poultry offal. Upon accession, WTO members will be able to challenge sanitary and phytosanitary measures that are not transparent or based on science under the Agreement on the Application of Sanitary and Phytosanitary Measures.

OTHER GOODS CONCESSIONS

In the automotive sector, Taiwan will sharply cut import tariffs and

taxes, eliminate subsidies and local content requirements and allow foreign companies to operate leasing and used car businesses. U.S. auto manufacturers will receive the largest quota among Taiwan's suppliers during a ten-year tariff-rate quota regime. The United States is guaranteed an allocation of 159,220 units during 2002 at a tariff rate of 29 percent. Taiwan is our seventh largest market for automobiles, with \$188 million in exports in 2000.

In the alcoholic beverage and tobacco sectors, Taiwan's state monopoly will be privatized, tariffs will be cut or eliminated and foreign investment will be permitted. Taiwan will also eliminate tariffs on paper, paperboard and most wood products. Taiwan is our tenth largest market for paper and paperboard and twelfth largest for wood.

NEW OPENINGS IN SERVICE INDUSTRIES

Taiwan will completely open a wide range of professional and business services. These include the services of architects, accountants, engineers and lawyers, as well as audiovisual services, express delivery services, advertising, computer services, construction, wholesale and retail distribution, franchising and environmental services. Taiwan will also provide full market access and national treatment in a wide range of financial services, including banking, securities, asset management and insurance. The commitments include a relaxation and elimination of regulatory obstacles to U.S. service firms' operations. In 2000, U.S. exports of commercial services to Taiwan totaled \$4.7 billion and imports totaled \$3.7 billion. U.S. firms also sold \$3.9 billion in services through their Taiwan subsidiaries in 1999.

GOVERNMENT PROCUREMENT AND CIVIL AIRCRAFT.

Taiwan will also join two WTO agreements that bind only some WTO members – the Agreement on Government Procurement (GPA) and the Agreement on Trade in Civil Aircraft.

■ Taiwan's adherence to the GPA is especially important. Its multi-billion-dollar public procurement market has attracted U.S. and other foreign bidders over the past several decades. The GPA imposes international norms of transparency and non-discrimination on the government bidding process by agencies that its signatories offer for coverage. Taiwan will provide non-discriminatory treatment to U.S. bidders in areas such as power generation, transport and power transmission services. Taiwan has implemented a new dispute resolution system for government contracts that should lead to fairer treatment of bidders both during the bidding process and in the event of a dispute.

■ Under the Civil Aircraft Agreement, Taiwan will eliminate tariffs in the aircraft sector

and will be required to select aircraft suppliers based on commercial considerations only. Taiwan was our tenth largest aircraft and parts market in 2000, with \$1.4 billion in sales.

ELIMINATION OF CERTAIN SUBSIDIES

By the time of its accession, Taiwan will have eliminated and may not re-introduce, all subsidies that are generally prohibited under WTO rules; i.e., subsidies contingent upon export performance ("export subsidies") or upon the use of domestic over imported goods ("import substitution subsidies"). The only exception and even then a temporary one, is an auto design import substitution subsidy that will cease no later than three years after accession. Taiwan has agreed to notify other WTO Members of all measures within its jurisdiction that qualify as a subsidy under WTO rules and are "specific" to a geographic region, enterprise, industry, or group of enterprises or industries. This transparency requirement will help alert Taiwan's trading partners to measures that could affect market access and competition and will ensure that subsidies used for economic development purposes conform to WTO rules.

TOP 10 U.S. EXPORTS TO TAIWAN

ITEM	JAN – SEPT, 2001 (in millions of U.S. dollars)
Electrical Machinery	4,084
Machinery	2,890
Aircraft, spacecraft	1,118
Optic, medical instruments	1,003
Organic Chemicals	507
Cereals	477
Plastic	460
Misc. Grain, Seed, Fruit	270
Inorganic Chemicals	226
Hides and Skins	209

Source: U.S. Dept. of Commerce, Census Bureau



COMPLIANCE AND ASSISTANCE

Taiwan's WTO accession package, when fully implemented, will be beneficial to all members. However, the next step is ensuring compliance. Ensuring that the United States receives the benefits of Taiwan's commitments requires systematic follow-up on the part of the Department of Commerce and other U.S. government agencies. We will need to be able to answer questions such as:

- Has Taiwan passed and implemented all the laws, regulations and other measures required by its WTO commitments? On schedule?
- Is Taiwan's implementation of those measures consistent with the WTO agreement and its own accession agreement?

- Has Taiwan provided the market access to its goods and services sectors committed to in the accession agreement?
- Has Taiwan amended its tariff schedules and implemented its TRQ systems in accordance with the market access schedules?
- Have new measures emerged that could impair the fulfillment of Taiwan's commitments?

This is what we mean by compliance monitoring. We will work with the Taiwan authorities and consult with U.S. industry, both here and in Taiwan, to ensure that we actually receive the benefits for which we negotiated over so many years.

What should you do if you are faced with a trade barrier in Taiwan? Contact the Department's

Market Access and Compliance Trade Compliance Center (TCC), which maintains the Department's "Trade Complaint Hotline" (www.mac.doc.gov/tcc). Through this hotline U.S. businesses can register their complaints online. In Taipei, U.S. companies may contact the Commercial Section of the American Institute in Taiwan (AIT). For contact information, see the sidebar.

Once a complaint is received, a compliance action team is formed, comprising all appropriate International Trade Administration industry, country, functional and legal experts. The compliance team analyzes the problem, examines the provisions of relevant trade agreements, consults with other appropriate government agencies and develops a strategy to resolve the complaint. Our goal is to persuade our trading partners to comply with their obligations, short of formal dispute settlement.

The Department works closely with U.S. Trade Representative (USTR) on cases where a WTO member is not abiding by its commitments. If we fail to persuade a trading partner to eliminate a WTO-inconsistent measure, USTR, in consultation with other agencies, considers appropriate enforcement action.

Together with the PRC's accession, Taiwan's accession to the WTO is a major step toward the Administration's goal of increasing market access and trade liberalization worldwide. WTO membership will not only open markets for our companies, but will help Taiwan companies to become more competitive as well. It is also an important victory for the global trading system, which stands to benefit significantly from the inclusion of both of these major economies. ■